

# Investment Market Review Third Quarter 2015

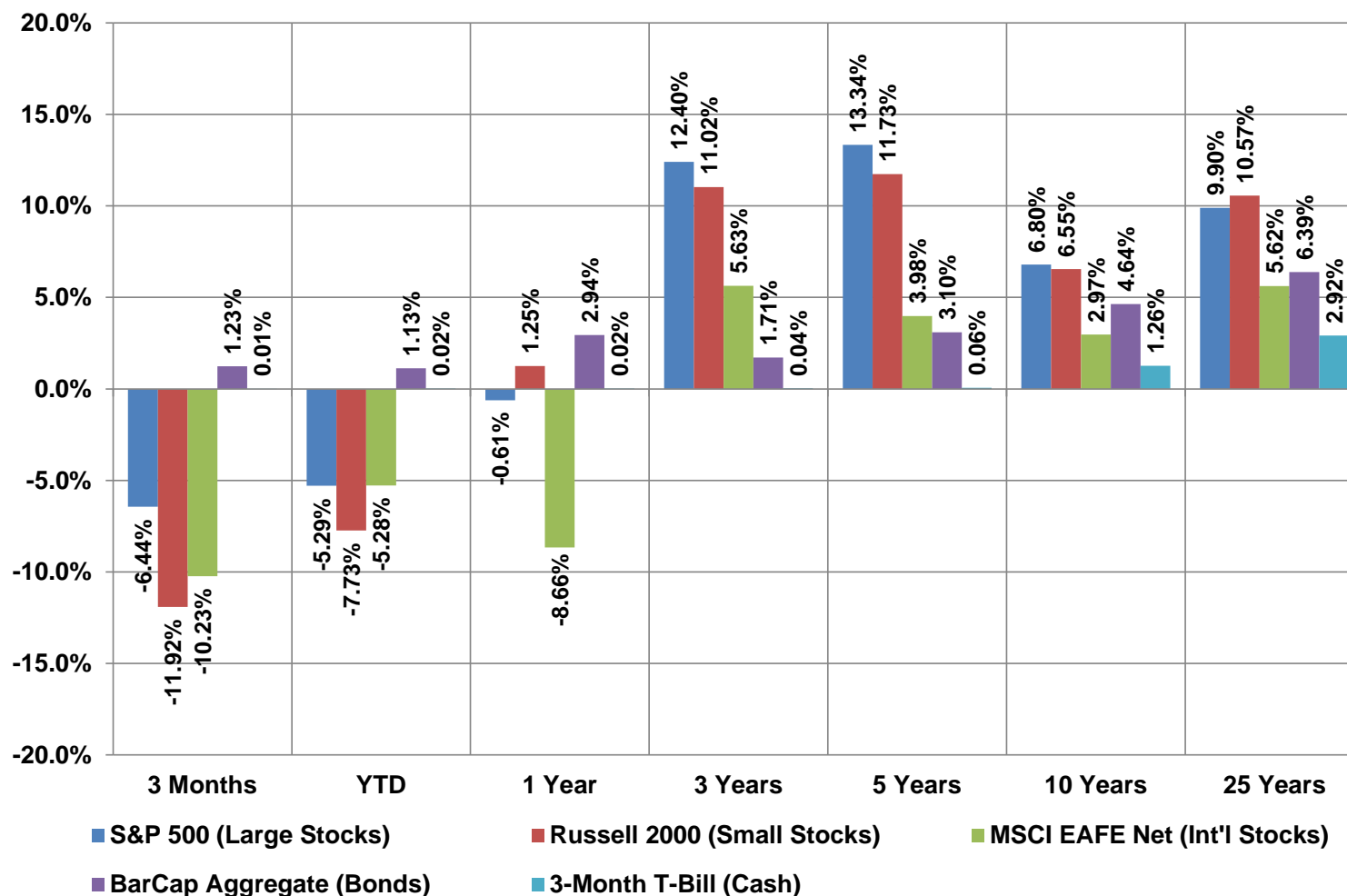
## State of Montana

# Capital Market Highlights

- U.S. stocks produced negative returns during the third quarter with the S&P 500 index down -6.4% and turned negative YTD, through September 30, down -5.3%. U.S. bonds produced positive returns during the third quarter with the Barclay's Capital US Aggregate index up +1.2%.
- Returns on emerging markets stocks took a sharp turn into negative territory during the third quarter with the MSCI Emerging Markets index returning -17.9%, wiping out any gains for the year. Emerging markets debt posted negative returns during the third quarter with the JP Morgan Emerging Markets Bond index returning -2.0%.
- The Federal Reserve opted not to raise rates at the September meeting, citing week jobs data and low inflation. With inflationary pressure low, foreign economies slowing (notably China), lower than expected job creation, and wages that are slow to rise, the Fed is not feeling pressure to raise rates as early as they anticipated. Lower than expected jobs data in September, which ordinarily would be a drag on the market, sent it soaring more than 5% in the first few days of October. A sign that the markets feel rates may stay lower for longer. Prior to the drop in China's stock market, the consensus was for rate increases in September. It is unlikely that the Fed will raise rates in October with some thinking December may also be off the table.

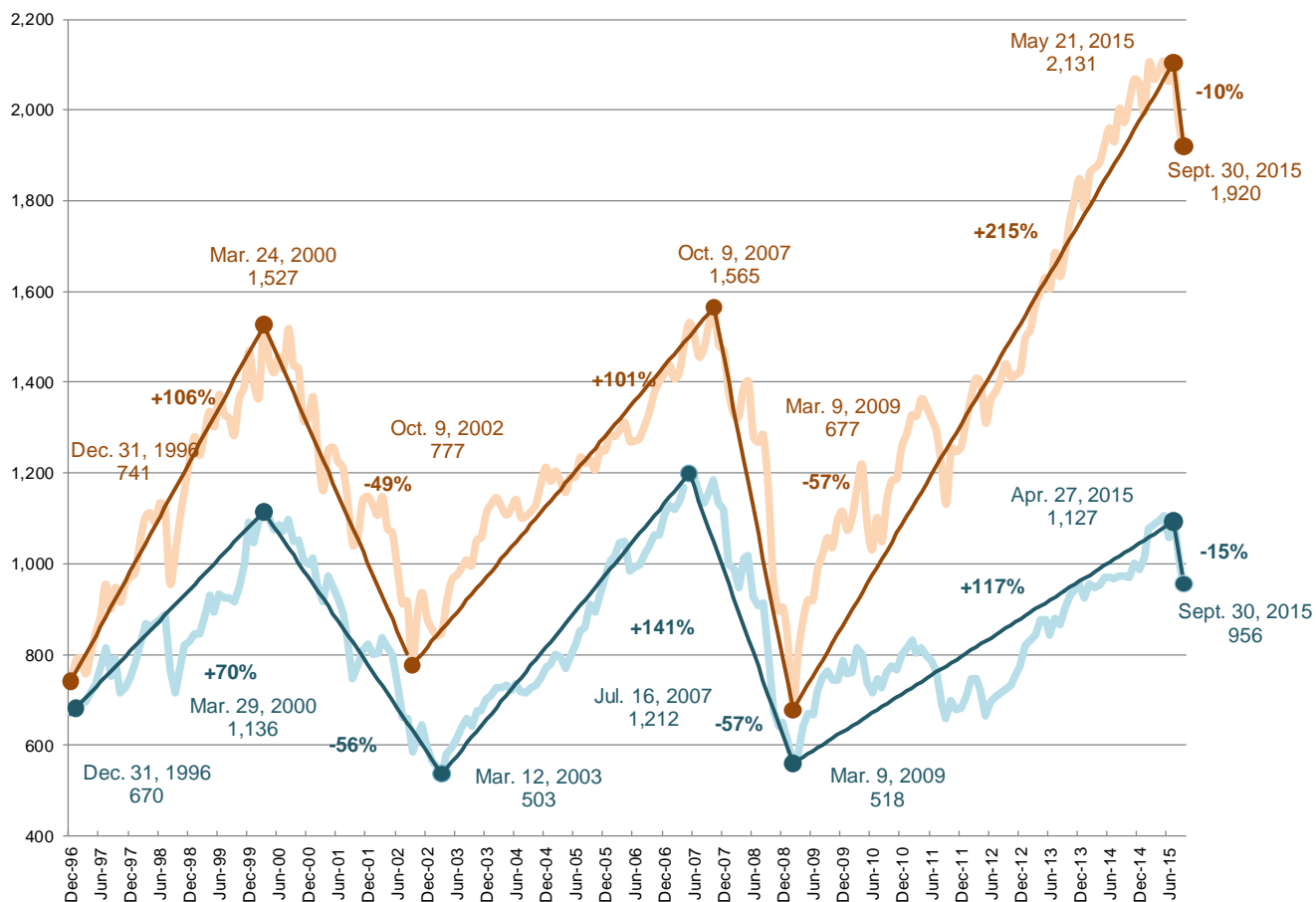
# Capital Market Highlights

Capital Market Performance as of September 30, 2015



# Capital Market Highlights

## S&P 500 and MSCI EAFE at Inflection Points



S&P 500	P/E (fwd)
Dec. 31, 1996	16.0
Mar. 24, 2000	25.6
Oct. 9, 2002	14.1
Oct. 9, 2007	15.2
Mar. 9, 2009	10.3
May 21, 2015	19.4
Sept. 30, 2015	18.0

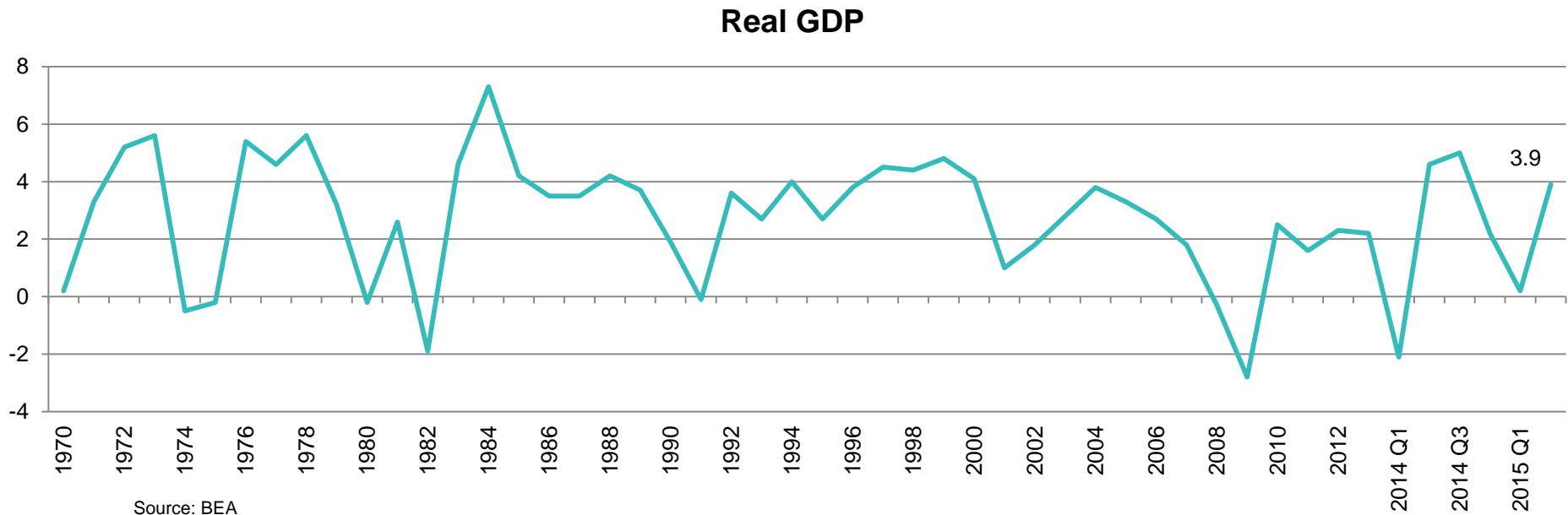
MSCI EAFE	P/E (fwd)
Dec. 31, 1996	19.5
Mar. 29, 2000	28.7
Mar. 12, 2003	13.2
Jul. 16, 2007	14.5
Mar. 9, 2009	10.2
Apr. 27, 2015	18.1
Sept. 30, 2015	15.2

Source: Standard & Poor's,  
Morgan Stanley Capital International,  
J.P. Morgan Asset Management

Returns based on S&P 500 Index Price Movement and  
MSCI EAFE Local Currency Index Price Movement

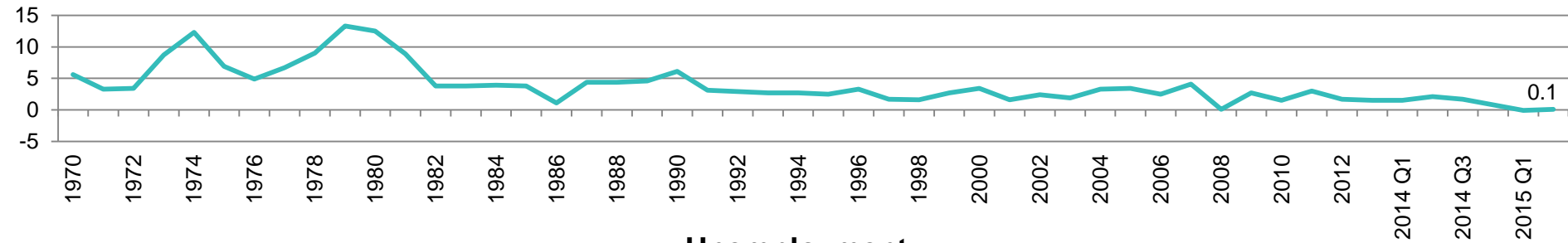
# US Economy

- The U.S. economy continues to move along, although a sharp slowdown was realized in the first quarter. Annualized GDP growth was 3.9% during the second quarter of 2015, up from 0.2% in the first quarter. Personal consumption expenditures, exports, and state and local government spending were among the largest contributors to first quarter GDP. Detractors included inventory investment and federal government spending.
- The economy grew at 2.3% through the first half of 2015 and economists expect 2015 GDP growth to exceed 2%. Third quarter GDP numbers have not been released.

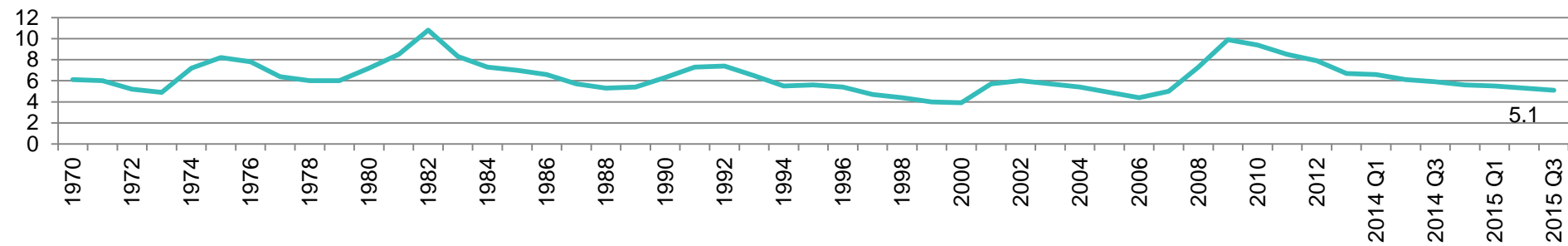


# US Economy

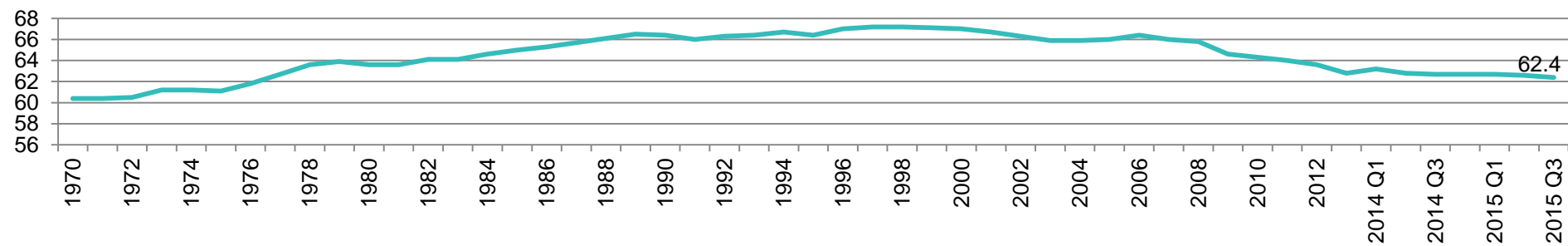
## Headline CPI



## Unemployment



## Labor Force Participation Rate

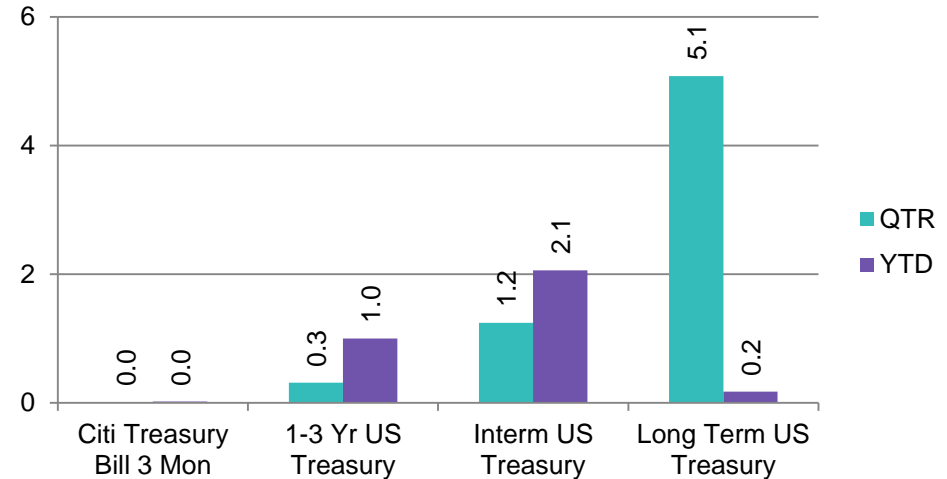


Source: BLS, St. Louis Federal Reserve

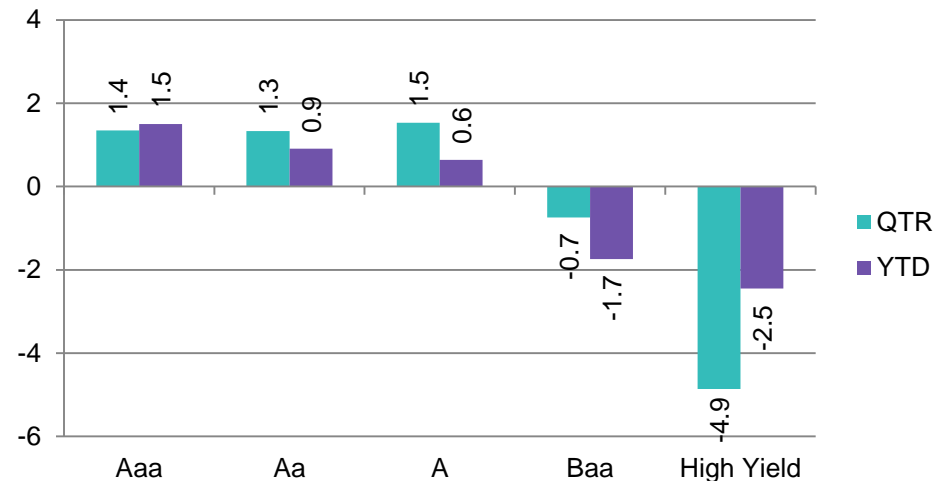
# Fixed Income

- The possibility of an interest rate hike by the Fed, uncertain global growth outlook, China's economic slowdown, volatile commodities, and overall lack of investor confidence are major factors contributing to a decrease in yields and a widening of credit spreads.
- Treasury 10-year yields had their biggest quarterly drop since December 2014, 29 basis points, in part due to falling oil and other commodity prices, continued concerns about global economic slowdown, and the Fed holding off on raising interest rates which has resulted in increased demand. There was a 12 basis point drop on 9/28-9/29 alone amid the selloff in stocks which occurred during this time. Thirty-year bond yields fell 24 basis points during Q3.
- **High Yield** was unable to post a gain for the quarter, and underperformed the positive returns posted by investment grade fixed income. After bottoming in early February, the yield on 10 Year Treasury Notes has since rebounded, reaching almost 2.5% in early June, and falling close to 2% at the end of September.

## Bond Performance by Maturity



## Bond Performance by Quality

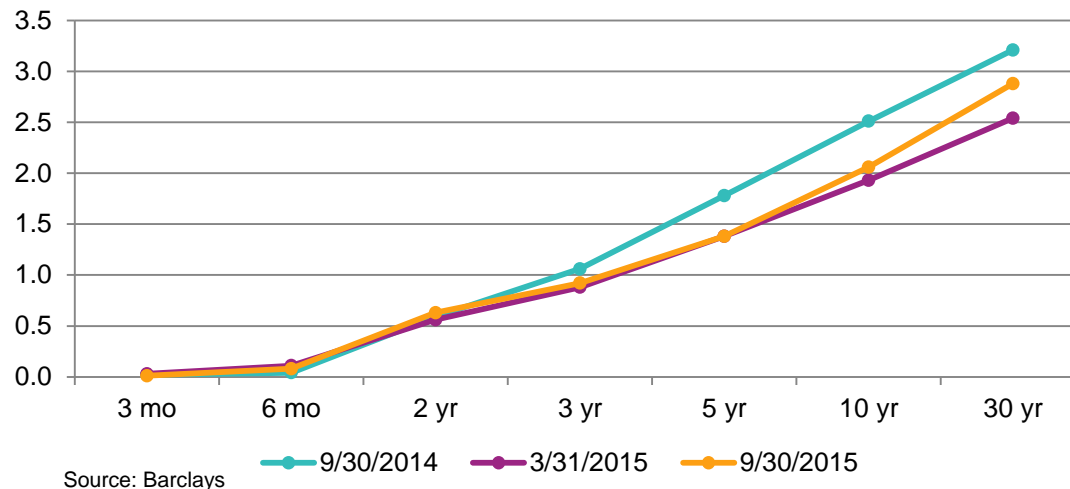


Source: Morningstar, Barclays Capital US Credit Indices

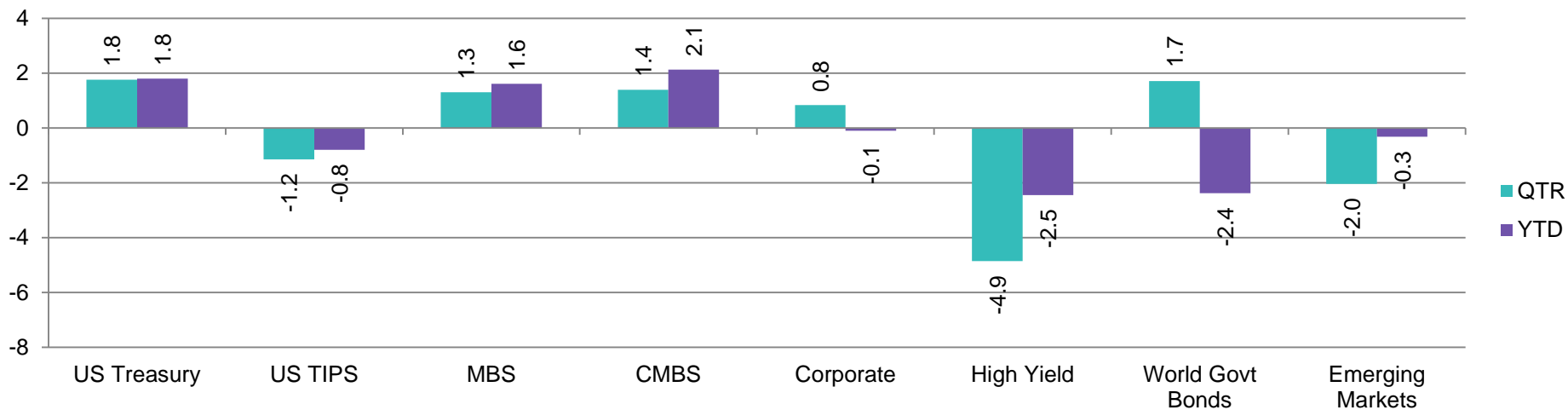
# Fixed Income

- The **Barclays Aggregate Index** returned +1.2% for the quarter.
- Long duration sectors generated strong relative returns, boosted by steady rates and a flattening yield curve. **Long Gov/Credit** and **Long Treasuries** returned +2.2% and +5.1% for the quarter, respectively.

## US Treasury Yield Curve



## Bond Performance by Sectors



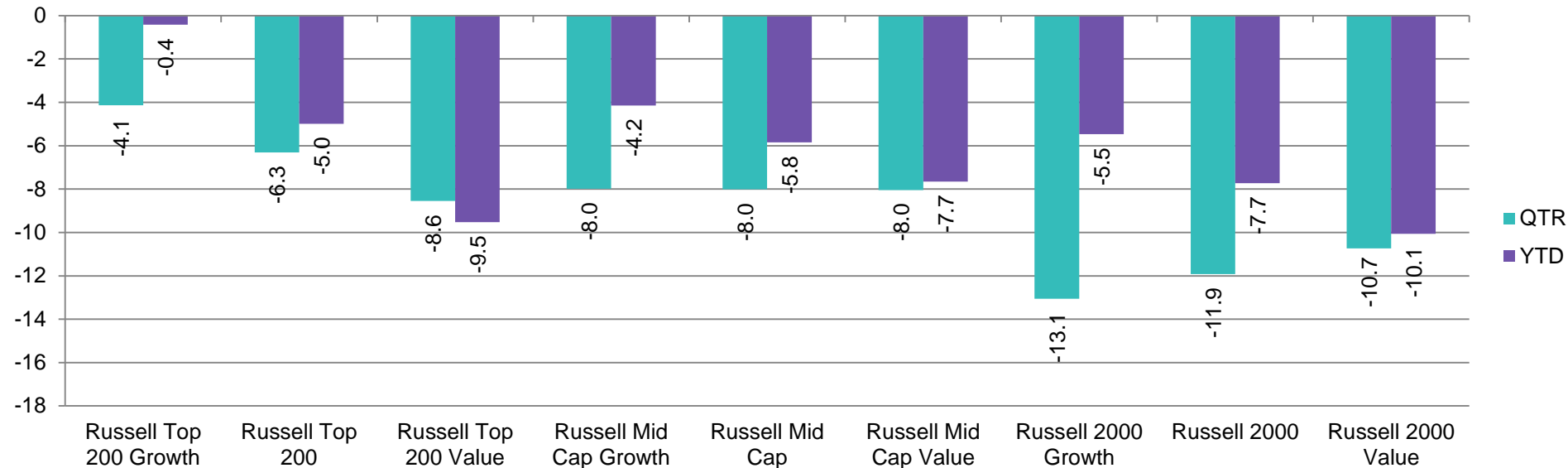
Source: Morningstar



# Equities

- US Equities were down for the quarter, with the **S&P 500** returning -6.4%.
- In terms of market capitalization, large stocks (**Russell Top 200**) performed the best, returning -6.3% for the quarter. In comparison, mid- and small-cap returned -8.0% and -11.9%, respectively, as measured by the **Russell Mid Cap** and the **Russell 2000**.
- The ongoing easy money policies have helped US equities, and inflation concerns remain low allowing for continued aggressive monetary policies. Although inflation increased slightly in the first half of 2014, it has fallen closer to 0% since then. Inflation remains below the Fed's target rate of 2%. Second quarter inflation came in at 0.1% up from -0.1% in the fourth quarter.

US Stocks by Capitalization/Style

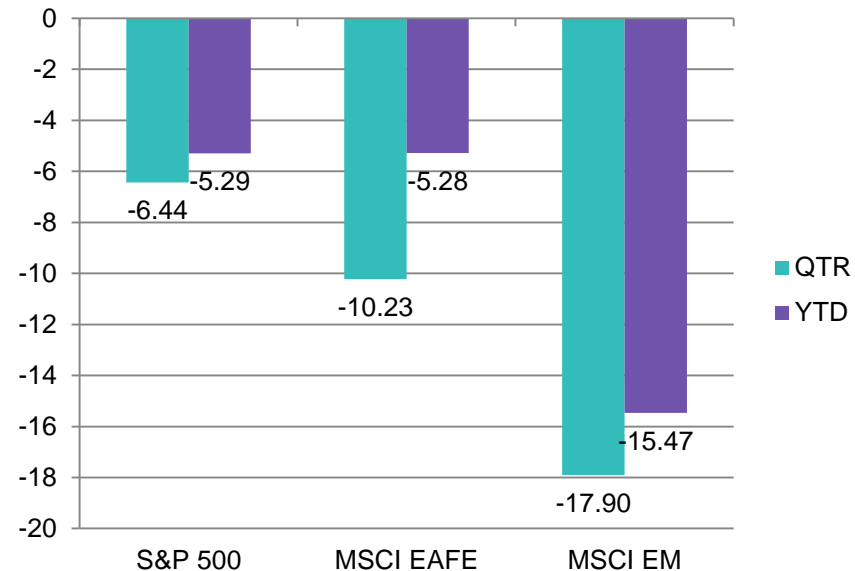


Source: Morningstar

# Equities

- Returns in **International Equities** were significantly negative over the quarter with developed market equities returning -10.2% for the third quarter.
- **Emerging Market Equities** were further in negative territory than their developed counterparts. The asset class was down -17.9% in the third quarter.
- In the third quarter, European equities were negative. French equities lost -6.5%, German equities lost -10.9%, and Portugal returned -11.6%. Japan was one of the bottom performing developed markets with a -11.8% return for the quarter.
- **European (ex UK) Equities** performed inline with Europe as a whole and returned -8.1% for the third quarter. The ECB continues to struggle with the threat of deflation.

Global Stocks by Region



Source: Morningstar

# Market Indices

## For Periods Ended September 30, 2015

	3 Months Return	6 Months Return	9 Months Return	1 Year Return	2 Years *Return	3 Years *Return	4 Years *Return	5 Years *Return	10 Years *Return
S&P 500 Index	-6.44	-6.18	-5.29	-0.61	9.09	12.40	16.61	13.34	6.80
NASDAQ	-7.09	-5.20	-1.61	4.00	12.00	15.48	19.07	15.66	8.97
MSCI EAFE Index	-10.19	-9.43	-4.91	-8.27	-1.99	6.08	8.09	4.45	3.44
MSCI Emerging Markets Index	-17.78	-17.11	-15.22	-18.98	-7.92	-4.93	0.20	-3.25	4.60
MSCI All Country World ex USA	-12.10	-11.46	-8.28	-11.78	-3.65	2.78	5.72	2.27	3.49
Russell 1000 Index	-6.83	-6.72	-5.24	-0.61	8.76	12.66	16.78	13.42	6.95
Russell Midcap Index	-8.01	-9.42	-5.84	-0.25	7.49	13.91	17.29	13.40	7.87
Russell 2000 Index	-11.92	-11.55	-7.73	1.25	2.58	11.02	15.91	11.73	6.55
Russell 3000 Index	-7.25	-7.12	-5.45	-0.49	8.25	12.53	16.71	13.28	6.92
Russell 1000 Growth Index	-5.29	-5.18	-1.54	3.17	10.87	13.61	17.32	14.47	8.09
Russell 1000 Value Index	-8.39	-8.30	-8.96	-4.42	6.60	11.59	16.14	12.29	5.71
Russell Midcap Growth Index	-7.99	-9.04	-4.15	1.45	7.75	13.98	17.03	13.58	8.09
Russell Midcap Value Index	-8.04	-9.84	-7.66	-2.07	7.25	13.69	17.40	13.15	7.42
Russell 2000 Growth Index	-13.06	-11.34	-5.47	4.04	3.92	12.85	17.17	13.26	7.67
Russell 2000 Value Index	-10.73	-11.80	-10.06	-1.60	1.22	9.18	14.62	10.17	5.35
NAREIT Equity REITs	2.00	-8.15	-3.79	9.88	11.50	9.59	14.94	12.00	6.82
Barclays Capital Intermediate G/C Bond Index	0.95	0.32	1.77	2.68	2.44	1.45	2.18	2.42	4.17
Barclays Capital Long Term G/C Bond Index	2.18	-5.56	-2.39	3.09	7.87	2.17	4.33	5.96	6.65
Barclays Capital Aggregate Bond Index	1.23	-0.47	1.13	2.94	3.45	1.71	2.56	3.10	4.64
Barclays Capital U.S. TIPS	-1.15	-2.20	-0.80	-0.83	0.37	-1.83	0.79	2.55	4.01
Barclays Capital U.S. Government	1.71	0.18	1.79	3.68	2.98	1.30	1.71	2.47	4.27
Barclays Capital U.S. Corporate Inv Grade	0.83	-2.36	-0.10	1.66	4.19	2.23	4.30	4.32	5.39
Barclays Capital U.S. Corporate High Yield	-4.86	-4.85	-2.45	-3.43	1.74	3.51	7.27	6.15	7.25
Citigroup Non-US WGBI USD	1.71	0.14	-4.22	-7.01	-4.05	-4.59	-2.63	-1.32	2.92
JP Morgan EMBI Global Diversified USD	-1.71	-2.04	-0.07	-0.62	4.40	1.50	5.74	4.73	6.89
JP Morgan GBI EM Global Diversified USD	-10.54	-11.40	-14.91	-19.77	-11.12	-8.72	-3.79	-3.56	4.45
Citigroup 90-Day Treasury Bills	0.01	0.01	0.02	0.02	0.03	0.04	0.04	0.06	1.26
Citigroup Pension Liability Index	3.23	-8.20	-3.77	4.15	10.31	2.23	6.45	7.98	7.88

\* Returns greater than one year are annualized.

# Market Indices

## Annual Returns

	2005 Return	2006 Return	2007 Return	2008 Return	2009 Return	2010 Return	2011 Return	2012 Return	2013 Return	2014 Return
S&P 500 Index	4.91	15.79	5.49	-37.00	26.46	15.06	2.11	16.00	32.39	13.69
NASDAQ	1.37	9.90	10.55	-40.03	45.32	18.02	-0.83	17.45	40.12	14.75
MSCI EAFE Index	14.02	26.86	11.63	-43.06	32.46	8.21	-11.73	17.90	23.29	-4.48
MSCI Emerging Markets Index	34.54	32.55	39.82	-53.18	79.02	19.20	-18.17	18.63	-2.27	-1.82
MSCI All Country World ex USA	17.11	27.16	17.12	-45.24	42.14	11.60	-13.33	17.39	15.78	-3.44
Russell 1000 Index	6.27	15.46	5.77	-37.60	28.43	16.10	1.50	16.42	33.11	13.24
Russell Midcap Index	12.65	15.26	5.60	-41.46	40.48	25.48	-1.55	17.28	34.76	13.22
Russell 2000 Index	4.55	18.37	-1.57	-33.79	27.17	26.85	-4.18	16.35	38.82	4.89
Russell 3000 Index	6.12	15.72	5.14	-37.31	28.34	16.93	1.03	16.42	33.55	12.56
Russell 1000 Growth Index	5.26	9.07	11.81	-38.44	37.21	16.71	2.64	15.26	33.48	13.05
Russell 1000 Value Index	7.05	22.25	-0.17	-36.85	19.69	15.51	0.39	17.51	32.53	13.45
Russell Midcap Growth Index	12.10	10.66	11.43	-44.32	46.29	26.38	-1.65	15.81	35.74	11.90
Russell Midcap Value Index	12.65	20.22	-1.42	-38.44	34.21	24.75	-1.38	18.51	33.46	14.75
Russell 2000 Growth Index	4.15	13.35	7.05	-38.54	34.47	29.09	-2.91	14.59	43.30	5.60
Russell 2000 Value Index	4.71	23.48	-9.78	-28.92	20.58	24.50	-5.50	18.05	34.52	4.22
NAREIT Equity REITs	12.16	35.06	-15.69	-37.73	27.99	27.96	8.29	18.06	2.47	30.14
Barclays Capital Intermediate G/C Bond Index	1.58	4.08	7.39	5.08	5.24	5.89	5.80	3.89	-0.86	3.13
Barclays Capital Long Term G/C Bond Index	5.33	2.71	6.60	8.44	1.92	10.16	22.49	8.78	-8.83	19.31
Barclays Capital Aggregate Bond Index	2.43	4.33	6.97	5.24	5.93	6.54	7.84	4.21	-2.02	5.97
Barclays Capital U.S. TIPS	2.84	0.41	11.64	-2.35	11.41	6.31	13.56	6.98	-8.61	3.64
Barclays Capital U.S. Government	2.65	3.48	8.66	12.39	-2.20	5.52	9.02	2.02	-2.60	4.92
Barclays Capital U.S. Corporate Inv Grade	1.68	4.30	4.56	-4.94	18.68	9.00	8.15	9.82	-1.53	7.46
Barclays Capital U.S. Corporate High Yield	2.74	11.85	1.87	-26.16	58.21	15.12	4.98	15.81	7.44	2.45
Citigroup Non-US WGBI USD	-9.20	6.94	11.45	10.11	4.39	5.21	5.17	1.51	-4.56	-2.68
JP Morgan EMBI Global Diversified USD	10.25	9.86	6.16	-12.03	29.82	12.24	7.35	17.44	-5.25	7.43
JP Morgan GBI EM Global Diversified USD	6.27	15.22	18.11	-5.22	21.98	15.68	-1.75	16.76	-8.98	-5.72
Citigroup 90-Day Treasury Bills	3.00	4.76	4.74	1.80	0.16	0.13	0.08	0.07	0.05	0.03
Citigroup Pension Liability Index	7.86	0.25	-2.89	17.57	4.61	13.76	28.33	11.66	-10.55	25.44